Investment Answers™
LEAVE UNCERTAINTY BEHIND.

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SUMMER 2012

How Much Do You Need for Retirement?

Retirement remains the number-one concern among working Americans, and the number-one question is, "How much money will I need to retire?"

That's what we're here for — to help you create a strategic investment plan and income strategy. If you are looking to understand more about the process, the first variable to consider is how much your lifestyle in retirement is going to cost. Other variables you'll have to pin down include what your health will be like, how much more expensive things will be, what your tax rate will be, and so forth.

The best way to go about determining those variables and answering the "How much do I need to retire?" question is to work with a professional to create the retirement chapter of a comprehensive financial plan. The truth is, however, that even after your plan is done, your number will always be a moving target as conditions in the economy, financial markets, and your life change. Uncertainty is greatest the farther away from retirement you are; but once you reach retirement, even the best of plans need to be revisited about once a year.

While we obviously can't address your individual case here, we can review the steps involved in preparing a personalized retirement plan:

Step 1: Identify your retirement goals. How much will the retirement lifestyle you want cost? When do you want to retire? At this point, it's okay to dream. Give the numbers a run — the financial planning process usually tosses out unrealistic expectations fairly quickly.

Choosing when to retire is the easy part — and the variable that's easiest to change if you're not being realistic. When it comes to pricing

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Your Bond Allocation

Your asset allocation mix represents your personal decisions about how much of your portfolio to allocate to various investment categories. Some factors to consider include:

- **Your risk tolerance.** The advantage of including both stocks and bonds in your portfolio is that when one category is declining, the other category will hopefully help offset this decline.
- **Your time horizon.** The longer your time horizon for investing, the more risk you can typically tolerate in your portfolio.
- **Your return needs.** Your need to emphasize income or growth is likely to change over your life.

Once you decide how much to allocate to bonds, you need to ensure that you diversify within the bond category:

- **By maturity dates.** You can purchase bonds with short (under three years), intermediate (three to 10 years), or long (over 10 years) terms.
- **By issuer.** You can purchase bonds issued by the federal government and its agencies, municipalities, corporations, or international issuers.
- **By type.** There are numerous types of bonds, including callable, zero coupon, inflation protected, and high yield. ❍❍❍

How Much?

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your future lifestyle, though, it's best to base it on your current lifestyle. If you don't know what that costs, you need to create a budget that line-by-line accounts for monthly expenses in all categories. Multiply those monthly expenses by 12, and take that number as a good benchmark for how much you'll need to spend in retirement.

Then you can adjust that number up or down — down for expenses you may no longer have, like mortgage payments or the cost of commuting to work; or up for things you'd like to have or do, like travel more or maintain a vacation home. A rule of thumb that works for many for planning purposes is 70% to 80% of your current household income.

Step 2: Identify your known income streams. Start with a projection for Social Security. Don't know what it is? Go to the SSA's website (ssa.gov) and use their "Retirement Estimator" to estimate your monthly check for yourself and partner, then annualize that number. Next, add any annual cash streams you might get, such as from a pension plan, rents, royalties, or trust funds.

Step 3: Calculate your income gap. Subtract your combined retirement income stream total (Step 2) from your annual retirement lifestyle cost (Step 1). The difference is how much you have to make up with withdrawals from your nest egg: taxable savings and investments, IRAs, and annuities.

Step 4: Calculate the nest egg you'll need. Divide any negative income gap by 4%. The result gives you a rough idea of how much in personal liquid assets, in today's dollars, you need to accumulate in order to afford to retire. Why divide by 4%? Because that's the approximate rate of annual withdrawal you should take from your retirement savings to make your money last for as long as you live.

Determining how much you need to accumulate in savings is just the first step in drawing up a retirement plan. The next step is to compare that to how much you've already accumulated and determine what you need to do to accumulate the rest. It could mean adjusting how much you save per year, how you invest your money, or changing the year you retire.

If you're uncertain about how much you need to retire or whether you can reach that amount, you owe it to yourself to create or revisit your retirement plan. Please call if you'd like to discuss this in more detail. ❍❍❍

Follow Through on Your Estate Plan

Usually, a great deal of thought and effort goes into estate planning documents. You need to consider all your assets, decide who should receive those assets, and find the most appropriate strategies to accomplish your goals. However, you need to make sure your assets are properly positioned to go to your intended heirs. Let us help you review your documents to avoid some common challenges.

1 Your assets aren't titled properly to fund trusts. A common estate planning strategy used to preserve your estate tax exclusion is to set up a credit shelter or bypass trust. Assets up to the estate tax exclusion amount ($5,120,000 in 2012, scheduled to decrease to $1,000,000 in 2013) are placed in trust. Your spouse can then use the income and even some of the principal, with the remaining assets distributed to your heirs after your spouse's death. To fund the trust, however, you need sufficient assets titled only in your name. Assets jointly owned with your spouse will typically pass directly to your spouse and cannot be placed in the trust. However, you may want to split assets so each of you individually owns assets designated to go into the trust. Residents of community property states should review their state laws carefully, since they typically have more flexibility when using assets to fund trusts.

2 Beneficiary designations contradict your estate planning documents. Assets like life insurance, annuities, 401(k) plans, and individual retirement accounts pass directly to named beneficiaries. Provisions in your will and other estate planning documents cannot change those designations. Thus, review all your beneficiaries ensuring those designations are compatible with your estate plan. Also review contingent beneficiaries in case a beneficiary dies before you. After significant changes in your life, such as a divorce, remarriage, spouse's death, or child's or grandchild's birth, review your designations to see if changes are warranted.

3 Owning assets jointly with just one child. Often, a widow or widower will add one child to bank accounts, brokerage accounts, deeds, and titles so that child can help manage the assets if the parent becomes incapacitated. The widow or widower expects the child to share the assets with siblings. However, the asset is considered a gift to the one child. For that child to split the asset with siblings, he/she will have to make gifts to those siblings, possibly raising gift tax implications. Instead, consider using a power of attorney, so one child can help with your financial affairs. Or, make a provision in your estate planning documents that adjusts distributions for any assets that pass to one heir through joint ownership. ❍❍❍

How to Talk to Your Parent(s) about Their Finances

Today, 5.3 million Americans are diagnosed with Alzheimer's disease (Source: Alzheimer's Association, 2010). Millions more suffer from cognitive impairment ranging from momentary memory loss to various stages of dementia.

Often, our parents need a gentle nudge or reminder to take their medication or make it to a doctor's appointment. Other times, there's the need for full financial intervention. The tough job is knowing the difference.

Signs That You May Need to Intervene

You may want to consider some degree of financial intervention if your parent(s) repeatedly exhibit multiple symptoms, such as the following:

— Inability to handle day-to-day details

— Exorbitant expenditures

— Grandiose thinking

— Reluctance to spend money

— Increase in the number of checks written

— Excessive opening and closing of accounts

— Uncharacteristic withdrawals of large sums of cash

— Unattended long-term obligations

— Unpaid bills

How to Approach Your Parent(s)

At issue is the element of control — most seniors loathe to give up control in their lives. The best approach is to appeal to their sense of protection where you're concerned. For example, you might say something like, "I'm attempting to do my own financial planning, but I need to know more about yours in order to plan accordingly." This can then open the discussion about their plans for long-term care and if they have money earmarked for assistance if needed, either through savings or a long-term-care insurance policy.

In some cases, the most effective strategy may be to engage the services of a third-party expert, such as a financial planner, tax advisor, and/or elder law attorney. Parents often feel threatened when children pry into their financial matters. Utilizing the services of an outside professional will help let them know that you have their best interests at heart.

How to Organize Your Parents' Finances

However you end up dealing with decisions about your parents, you'll need to draft or find the paperwork and information listed here:

✔ **Sources of retirement income** — If your parent doesn't keep good records, this may mean checking the mail regularly to wait for income checks or bank and investment statements.

✔ **Residential preference** — You should regard staying in the family home as a temporary situation that will eventually change, regardless of your parents' wishes. Should your parents develop an illness or dementia, they will likely need 24-hour care at some point, and not many adult children can provide this on their own.

✔ **Last will and testament** — While it's important to honor your parents' wishes, it's also important to stave off sibling arguments and discord in the future. Ensuring your parents write a will helps make sure assets get distributed according to their wishes.

✔ **Durable power of attorney** — This is legal authorization to take over your parents' finances and make decisions on their behalf. A durable power of attorney for healthcare (DPAHC) will allow this.

✔ **Living will** — A living will is similar to a healthcare DPA, but is also an advance directive of the actual wishes of the incapacitated person regarding health care, such as life-sustaining measures or resuscitation.

✔ **Funeral arrangements** — Many times seniors make these arrangements but forget to tell their children.

✔ **Beneficiary forms** — These may need to be updated and include everything from insurance policies to investment payouts.

✔ **Estate tax plan** — The larger the estate, the more prudent it may be to seek advice from an estate attorney or financial advisor.

The key elements to your parents' financial security and longevity are to determine how much they need to live on now — and in the future — and be sure to factor in increased healthcare expenses. Today, out-of-pocket healthcare expenses comprise about 15% of seniors' total income (Source: Bureau of Labor Statistics, 2010). According to one estimate, a 65-year-old couple retiring this year will need $230,000 to pay for medical care throughout retirement, not including long-term-care expenses (Source: Fidelity Investments, March 2011).

Please call if you'd like to discuss this in more detail. ❍❍❍

Investment Answers News

We have some exciting news to share!

As you know, education is a top priority to our firm, and we live that by always seeking continued education in our personal and professional lives.

Your advisor, Travis Terlau, recently completed the Certified Financial Planner's program and is now a CFP®. This places him in the top 3% of all financial planners in America and in the top 1% in the world. Less than 70,000 financial advisors in the country have ever received this designation. For many of you, Travis is the only CFP® in the area. We are very proud. We dedicate this accomplishment to all of you, our clients, for your support and your love.

We have recently sent you a response card asking for the contact information of other professionals that you work with. Knowing of high-quality **Tax Preparers, CPAs and Attorneys** in your area will allow us to make referrals to other clients in need and also give us the opportunity to introduce ourselves to other professionals whom you respect.

It is common for CFP®s to work with Tax Preparers, CPAs and Attorneys in order to create a seamless estate plan. As a CFP® and as a fiduciary, Travis can discuss with them how their planning on your behalf can and should coalesce with our representation of you.

If you have not already, would you be kind enough to fill out the attached card as thoroughly as possible and return it in the included self-addressed, stamped envelope? As always, you may contact our office directly at 502-741-1817. It would help us on our mission of being able to make high-quality referrals in each area in which we work. ❍❍❍

Pink Lemonade Pie

This is such an easy, fun, go-to recipe for the summer. If you have a party to attend, throw this together in minutes and let chill.

12–13 oz. sweetened condensed milk

½ can frozen pink lemonade

1 small tub of Cool Whip

1 graham cracker crust

Mix together the condensed milk and frozen pink lemonade until blended. Fold in the tub of Cool Whip. Place your crust in a pie pan. Gently pour mixture into crust. Refrigerate.

Financial Thoughts

Approximately 72% of Americans feel underprotected or severely underprotected when it comes to the size of their savings accounts, emergency funds, or life insurance coverage (Source: *InvestmentNews*, December 12, 2011).

Debit and credit card losses due to fraud totaled $3.6 billion in 2010 in the United States, making it responsible for 47% of global credit and debit card fraud and the world leader in fraud losses (Source: *The Nilson Report*, 2011).

Over 85% of Americans age 60 and over do not have long-term-care insurance. Of those who do not have insurance, 37% will rely on family to pay expenses, 28% believe Medicare or Medicaid will pay for care, 22% don't know how they will pay for care, and 9% believe that health insurance will pay expenses (Source: *SmartMoney*, January 2012).

The average student loan debt burden for individuals between the ages of 38 and 41 totaled $12,000, up from $9,000 in 2009, as more people seek mid-career training (Source: *InvestmentNews*, January 2, 2012).

Approximately 39% of Americans believe that using smart phones, iPads, and similar devices make them better bargain hunters (Source: *InvestmentNews*, January 2, 2012). ❍❍❍